

## Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 EB-07 SIL-01 LAB-04 CIAE-00  
INR-07 NSAE-00 PM-04 NSC-05 SP-02 SS-15 FRB-01  
OMB-01 L-03 H-02 PA-02 PRS-01 /078 W  
-----131007Z 046369 /10

P R 130830Z JUN 77

FM AMEMBASSY ABU DHABI  
TO SECSTATE WASHDC PRIORITY 6220  
USDOC WASHDC  
US TREASURY WASHDC  
INFO AMEMBASSY CAIRO  
AMCONSUL DHAHRAN  
AMEMBASSY DOHA  
AMEMBASSY JIDDA  
AMEMBASSY KUWAIT  
AMEMBASSY LONDON  
AMEMBASSY MANAMA  
AMEMBASSY MUSCAT  
AMEMBASSY TEHRAN

UNCLAS SECTION 1 OF 2 ABU DHABI 1758

FROM THE AMBASSADOR

E. 11652: N/A  
TAGS: ETRD, EFIN, ELAB, BEXP, TC  
SUBJ: IMPACT OF US TAXATION ON AMERICAN BLUE COLLAR WORKERS IN UAE

REF: (A) 76 ABU DHABI 3277, (B) ABU DHABI 706, (C) ABU DHABI 1494

1. SUMMARY: A LARGE NUMBER OF WORKERS FROM US ARE LEAVING  
JOBS IN NORTHERN EMIRATES BECAUSE OF COMBINED IMPACT OF  
IRS POLICY THAT HOUSING, COST OF LIVING AND OTHER  
FRINGE BENEFITS OF AMERICANS WORKING ABROAD ARE  
TAXABLE INCOME AT INFLATED LOCAL COSTS AND RECENTLY  
AMENDED TAX REFORM ACT WHICH REDUCED TAX CREDIT  
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AND INCREASES TAX LIABILITY IN 1977. BLUE COLLAR  
WORKERS ARE THOSE BEING PARTICULARLY HARD HIT. END SUMMARY

2. IN PREVIOUS REFTELS, EMBASSY SET FORTH IN DETAIL  
ITS CONCERNS OVER IMPACT OF NEW TAX LEGISLATION ON  
EMPLOYMENT OPPORTUNITIES FOR AMERICANS OVERSEAS AND  
LOSS OF SALES OF GOODS AND SERVICES ABROAD CITING

SOME EXAMPLES. RECENT NEW DEVELOPMENTS IN UAE DRAMATIZE MORE THAN EVER IMPACT OF US TAXES ON JOBS HELD BY OVERSEAS AMERICANS, WITH BLUE COLLAR WORKERS SUFFERING THE MOST.

3. RANKS OF AMERICAN WORKERS PARTICULARLY IN DUBAI AND NORTHERN EMIRATES ARE BEING DECIMATED BY A COMBINATION OF: (A) THE IRS POLICY THAT HOUSING, COST OF LIVING, AND EDUCATION ALLOWANCES PLUS OTHER FRINGE BENEFITS RECEIVED BY AMERICANS EMPLOYED ABROAD ARE TAXABLE AS INCOME; (B) THE RECENTLY AMENDED TAX REFORM ACT WHICH REDUCES CREDIT AND INCREASES TAX LIABILITY FOR AMERICANS WORKING ABROAD AS OF JAN 1, 1977; AND (C) THE UNWILLINGNESS OF US OR FOREIGN EMPLOYERS TO OFFSET INCREASE TAX BITE FOR US CITIZEN EMPLOYEES BECAUSE OF COST AND BECAUSE PYRAMIDAL "GROSSING" OF OFFSET PAYMENTS WOULD BE TAXABLE AS FRINGE BENEFITS IN SUCCEEDING YEARS. GROWTH IN ALLOWANCES TO OFFSET HIGH RATE OF INFLATION IN UAE HAS ONLY MADE MATTERS WORSE. THUS LARGE NUMBER OF SKILLED AMERICAN HAVE BEGUN TO LEAVE SINCE THEY HAVE BECOME TOO EXPENSIVE TO THEIR EMPLOYER AND CAN BE REPLACED BY EUROPEANS AT SOMEWHAT LOWER SALARY, PARTICULARLY BY THOSE WHO HAVE HAD NORTH SEA EXPERIENCE AND WHO ARE INCREASINGLY AVAILABLE AS NORTH SEA OIL ACTIVITY DECLINES. FOR THOSE RETURNING AMERICAN EMPLOYEES WHO HAVE SENIORITY IN THEIR COMPANIES, THEY ARE DISPLACING OTHER, LESS SENIOR, EMPLOYEES IN US WHO PRESUMABLY ARE BEING ADDED TO THE UNEMPLOYMENT ROLLS.

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4. THE MOST RECENT AND PROMINENT EXAMPLE IN UAE IS MCDERMOTT CORPORATION OF NEW ORLEANS. IN 1976, IT HAD A TOTAL OF ABOUT 500 US CITIZEN EMPLOYEES IN NORTHERN EMIRATES AND OFFSHORE RIGS IN GULF AND FOR YEARS HAS BEEN LARGEST EMPLOYER OF AMERICANS IN UAE. ABOUT TWO-THIRDS OF THIS FORCE WAS COMPOSED OF HIGHLY SKILLED BLUE COLLAR TYPES: TUGBOAT CAPTAINS, WELDERS, PIPE FITTERS, MEDICAL TECHNICIANS, STRUCTURAL STEEL FITTERS, ETC., WITH BALANCE HOLDING MANAGERIAL AND ADMINISTRATIVE POSITIONS. THESE SKILLED TECHNICIANS EARNED ANYWHERE BETWEEN 20 AND 35,000 DOLLARS A YEAR WORKING TWELVE HOUR DAYS, SIX DAYS A WEEK WITH A SUBSTANTIAL NUMBER HAVING THEIR FAMILIES WITH THEM. NEW TAX LEGISLATION HAS REQUIRED MCDERMOTT MANAGEMENT TO DECIDE WHETHER OR NOT TO PARTICIPATE IN A TAX EQUALIZATION PLAN FOR ITS BLUE COLLAR WORKERS. IT HAS DECIDED THIS IS TOO COSTLY. CONSEQUENTLY, COMPANY ANTICIPATES THAT ALL ITS AMERICAN BLUE COLLAR WORKERS WILL BE REPATRIATED BY END OF 1977. OR ITS AMERICAN ADMINISTRATIVE AND MANAGERIAL-LEVEL PERSONNEL,

MCDERMOTT HAS CONCLUDED TAX EQUALIZATION AGREEMENT  
BUT NUMBERS BEING PARED DOWN SIGNIFICANTLY TO REDUCE  
COSTS. MEANWHILE, MCDERMOTT BUSILY HIRING EUROPEANS,  
AND IT EXPECTS THAT ITS US WORK FORCE WILL HAVE  
DROPPED FROM 500 TO LESS THAN 200 BY END OF THIS  
YEAR AND MAY GO AS LOW AS 100.

5. TO ILLUSTRATE IMPACT OF TAXATION ON BLUE COLLAR  
WORKER AND WHY AMERICAN MADE NON-COMPETITIVE, WE  
HAVE OBTAINED FOLLOWING COST FIGURES FROM MCDERMOTT  
USING EXAMPLE OF AMERICAN CHIEF METALURGICAL X-RAY TECHNICIAN  
WHO HAS JUST BEEN REPLACED BY A BRITISH TECHNICIAN. IT  
BASED ON FAMILY OF FOUR WITH TWO SCHOOL-AGE CHILDREN  
GOING TO DUBAI INTERNATIONAL SCHOOL LIVING IN SMALL  
THREE BEDROOM HOUSE WHOE RENT STILL SUBJECT TO LONG  
TERM LEASE. NO TAXES ARE LEVIED IN UAE ON INCOME.

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AMEMBASSY MANAMA  
AMEMBASSY MUSCAT  
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UNCLAS SECTION 2 OF 2ABU DHABI 1758

	AMERICAN	EUROPEAN
PERIOD	1976 1977	1977
	TAX REFORM	
SALARY	25,000 25,000	17,500

## COST DIFFERENTIAL

## AND REIMBURSEMENT:

## HOUSING

DIFFERENTIAL (NOTE 1)	11,604	11,604	11,604
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## AIRLINE FARE FOR

## ANNUAL HOME LEAVE

(DUBAI-NEW ORLEANS)	6,908	8,108	4,000
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SCHOOLS FEES	7,500	9,500	9,500
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## COMMODITIES AND

SERVICE (NOTE 2)	4,488	4,488	4,488
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## TOTAL OVERSEAS

DIFFERENTIAL	30,500	33,700	29,592
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## TOTAL COST TO

COMPANY	55,500	58,700	47,092
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US TAX (NOTE 3)	7,763	15,476	-----
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## NET COMPENSATION

AFTER TAXES	17,237	9,524	17,500
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NOTE 1-HOUSING DIFFERENTIAL REPRESENTS DIFFERENCE  
BETWEEN COST IN US AND DUBAI OF HOUSING OF STANDARD  
TYPICAL FOR PERSON OF SIMILAR STATUS IN THE US.

NOTE 2-REFELCTS COST OF LIVING DIFFERENTIAL BETWEEN US AND DUBAI.

NOTE 3-ASSUMES STANDARD DEDUCTION OF \$2,800 PLUS \$3,000

PERSONAL EXEMPTION. SINCE MOST BLUE COLLARS STAY IN UAE LESS  
THAN THREE YEARS, 20,000 TAX CREDIT APPLIED TO GROSS INCOME FOR 1976  
RATHER THAN 25,000. TAX FOR 1977 BASED ON GROSS INCOME, LESS  
STANDARD DEDCUTION, LESS TAX LEVIED ON FIRST 15,000 DOLLARS OF  
INCOME.

6. EVEN A CURSORY EXAMINATION OF ABOVE FIGURES SHOWS  
REMARKABLE EFFECT OF PRESENT TAX STRUCTURE ON AMERICA  
WORKER ABROAD. EVEN THOUGH THISPARTICULAR AMERICAN'S  
SALARY WAS \$7,500 MORE THAN THE EUROPENA WHO REPLACED  
HIM, HIS TAKE HOME PAY WOULD BE \$8,000 LESS. IN THESE  
CIRCUMSTANCES, WITHOUT HELP FROM HIS AMERICAN EMPLOYER,  
HE SIMPLY COULD NOT AFFORD TO STAY.

7. STILL ANOTHER EXAMPLE OF THE ADVERSE IMPACT HAS  
RECENTLY BEEN OFFERED BY CHAIRMAN OF OILFIELDS SUPPLY  
CENTRE (OSC), A DUBAI BASED COMPANY, WHICH COORDINATES  
AND CONTRACTS FOR SERVICES OF FIRMS WHICH MAINTAIN  
AND SUPPLY OILFIELDS IN GULF. ALTHOUGH ALMOST ALL COM-  
PANIES TXPLOYED BY OSC ARE AMERICAN, IT HAS STATED  
NEGOTIATIONS WITH NUMBER OF RENCH AND GERMAN FIRMS  
BECAUSE COSTS OF DOING BUSINESS WITH US COMPANIES IS  
TOO HIGH. MOREOVER, OSC HAS FELT OBLIGED TO SEND  
LETTERS TO AMERICAN FIRMS IT CURRENTLY ASSOCIATED WITH  
TELLING THEM "TO REPLACE ALL AMERICANS PROVIDED TO US  
WITH QUALIFIED PERSONS OF OTHER NATIONALITIES" BECAUSE

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"IT IS VERY HARD TO JUSTIFY INCREASES IN YOUR MANAGEMENT CHARGES, WHICH ARE BEING REQUESTED PRIMARILY TO REIMBURSE AMERICAN EMPLOYEES FOR US INCOME TAX LIABILITY. IF WE AGREE TO THE PRINCIPLE OF THIS REIMBURSEMENT, WE ACCEPT WHAT IS IN EFFECT AN OPEN ENDED COST WHICH IS NOT CONTROLLED BY OUR MANAGEMENT." LETTER ALSO STATES THAT IF IT ASSUMED THAT REIMBURSEMENT FOR ONE YEAR'S TAX WILL BE CONSIDERED AS TAXABLE INCOME FOLLOWING YEAR, "IT BECOMES OBVIOUS THAT WE HVE REACHED POINT WHERE IT IS UNECONOMIC TO CONTINUE EMPLOYING AMERICANS."

8. COMMENT: WE HAVE LONG BEEN ON RECORD THAT IT SHOULD NOT BE LEFT TO DISORGANIZED EFFORTS BY PRIVATE OVERSEAS AMERICANS TO LOBBY WITH CONGRESS TO TRY AND CORRECT WHAT HAS BECOME A FORM OF DICRIMINATORY AND CONFISCATORY TAXATION. WE HAVE BEEN DISTRESSED THAT OUR MESSAGES HAVE MET WITH STONY SILENCE IN WASHINGTON. WE FEEL THAT THIS IS AN IMPORTANT POLICY MATTER WHICH DESERVES MORE THAN CASUAL ATTENTION BY USG AGENCIES BECAUSE IT AFFECTS IMPORTANT US ECONOMIC INTERESTS AND IS WRONG MORALLY. CONFISCATORY TAXATION OF EARNINGS OF OVERSEAS AMERICANS APPEARS TO US TO BE INCONSISTENT WITH THE ELEMENTAL HUMAN RIGHT TO WORK AND THE GOVERNMENT'S OBLIGATION TO PROTECT THAT RIGHT. WHILE LOSS OF 300 OR MORE BLUE COLLAR JOBS FOR AMERICANS IN ONE FIR IN UAE MAY NOT SEEM OVERLY IMPORTANT, THIS JOB LOSS IS INDICATIVE OF THE HARMFUL AND SURELY UNINTENTIONAL EFFECT OF PRESENT TAX STRUCTURE. WE WHOPE THIS LATEST MESSAGE WILL INCREASE WASHINGTON AWARENESS OF HUMAN DIMENSION OF PROBLEM AND LEAD TO CORRECTIVE ACTION, EVEN THOUGH IT WILL BE TOO LATE TO DO ANY GOOD HERE.  
DICKMAN

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## Message Attributes

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**To:** STATE COM  
**Type:** TE  
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**Review Markings:**  
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